

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10  
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11  
IO-13 AID-05 CEA-01 COME-00 EB-08 FRB-03 STR-07  
TRSE-00 LAB-04 SIL-01 OMB-01 AGRE-00 /109 W  
-----012610 301339Z /50

R 301109Z MAY 78  
FM AMEMBASSY BELGRADE  
TO SECSTATE WASHDC 6753  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LONDON  
AMEMBASSY THE HAGUE  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME

C O N F I D E N T I A L SECTION 1 OF 2 BELGRADE 4074

BRUSSELS FOR EEC

E.O. 11652: GDS  
TAGS: EEC, YO  
SUBJECT: YUGOSLAV/EC RELATIONS

SUMMARY: DURING MAY 22 MEETING WITH AMBASSADOR, UNDER SECRETARY  
FOR FOREIGN AFFAIRS BUDIMIR LONCAR EXPRESSED SERIOUS YUGOSLAV  
CONCERN OVER RELATIONS WITH EC AND STATUS OF CURRENT  
NEGOTIATIONS. HE SAID EC NOW THREATENING YUGOSLAVIA'S STABILITY  
AND THAT GREATER YUGOSLAV RELIANCE ON THE EAST WOULD HAVE  
SEVERE CONSEQUENCES FOR YUGOSLAVIA'S INTERNAL ECONOMIC  
DEVELOPMENT AND ITS "INDEPENDENT POLICY". THE PROBLEM IS A  
SERIOUS POLITICAL ONE FOR YUGOSLAVIA. CONTINUING NEGOTIATIONS  
ON BASIS OF EXISTING FORMULAS IS NOT THE WAY OUT. YUGOSLAVIA  
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DOES NOT WISH TO CREATE CRISIS, HOWEVER, AND HOPES TO FIND  
MUTUAL SOLUTION BASED ON LONG-TERM ECONOMIC AND POLITICAL  
INTERESTS OF BOTH SIDES. END SUMMARY.

1. LONCAR BEGAN BY TERMING YUGOSLAVIA'S RELATIONSHIP WITH THE EC  
A "MILESTONE OF OUR INDEPENDENCE AND STABILITY". HE STATED THAT  
THE CURRENT PATTERN OF TRADE -- 51 PERCENT WITH THE WEST,

33 PERCENT WITH COMECON, AND 16 PERCENT WITH THE LDC'S--WAS WELL SUITED TO SUPPORTING YUGOSLAVIA'S INDEPENDENT POSITION AND NEEDS FOR DEVELOPMENT. TRADE WITH THE EC ALONE, HE NOTED, ACCOUNTS FOR 38 PERCENT OF TOTAL YUGOSLAV TRADE, WHILE THE EC'S ROLE IN SUPPLYING INDUSTRIAL EQUIPMENT AND KNOW-HOW IS EVEN MORE IMPORTANT. 40 PERCENT OF ALL YUGOSLAVIA'S INDUSTRIAL COOPERATION IS WITH WEST GERMANY, FOR EXAMPLE.

2. LONCAR THEN EXPRESSED SERIOUS CONCERN OVER CURRENT DIFFICULTIES WITH THE EC. HE SAID YUGOSLAVIA WAS NOW IN A "TERRIBLE POSITION", COVERING ONLY 36 PERCENT OF ITS EC IMPORTS WITH EXPORTS AND OWING 80 PERCENT OF ITS FOREIGN DEBT TO THE WEST. CALLING THE PRESENT SITUATION "UNACCEPTABLE", HE STATED "IT IS IMPOSSIBLE FOR US TO GO ON". HE NOTED THAT YUGOSLAVIA HAS EXCELLENT POLITICAL RELATIONS WITH EACH OF THE EC COUNTRIES, BUT THAT ECONOMIC DIFFICULTIES WITH THE COMMUNITY AS A WHOLE HAVE CREATED A "TREMENDOUS" PROBLEM. ALL COUNTRIES AGREE INDIVIDUALLY ON THE NEED FOR ACTION, HE SAID, BUT THE END RESULT IS NEGATIVE. THE GREATEST DIFFICULTIES ARE WITH FRANCE, BOTH ON AGRICULTURE AND BECAUSE FRANCE HAS A RESTRICTED VIEW OF THE EC'S RELATIONSHIP WITH THIRD COUNTRIES. ITALY IS THE SECOND MOST DIFFICULT COUNTRY. THERE ARE TWO PROBLEMS WITH THE FRG-GUEST WORKERS AND INVESTMENT-BUT THERE HAS BEEN SOME RECENT IMPROVEMENT HERE. LONCAR SAID THE EC DOES NOT HAVE CONFIDENCE IN YUGOSLAVIA, NOTING THAT YUGOSLAVIA OBTAINS WORSE CREDIT TERMS ON THE EURO-CAPITAL MARKET THAN DOES

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HUNGARY, FOR EXAMPLE. THIS, HE SAID, IS IRONICALLY THE PRICE YUGOSLAVIA MUST PAY FOR NOT BEING IN THE EASTERN BLOC AND IS AN "INTERESTING CONSEQUENCE" OF YUGOSLAVIA'S INDEPENDENT POSITION.

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AMEMBASSY THE HAGUE  
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AMEMBASSY PARIS  
AMEMBASSY ROME

C O N F I D E N T I A L SECTION 2 OF 2 BELGRADE 4074

BRUSSELS FOR EEC

3. LONCAR STATED THAT AGAINST ITS WILL THE EC IS NOW  
"THREATENING OUR STABILITY". ANY RESTRICTIONS ON YUGOSLAVIA'S  
TRADE WITH THE EC WOULD LEAD TO GREATER ECONOMIC RELIANCE ON  
THE EAST. WITH YUGOSLAVIA'S ECONOMIC DEVELOPMENT AT A CROSSROAD,  
THE CONSEQUENCES WOULD BE SEVERE: TO CUT BACK IMPORTS, SLOW  
DOWN INTERNAL ECONOMIC EXPANSION, REDUCE THE QUALITY OF PRODUCTION,  
LOWER CONSUMPTION AND CREATE GREATER UNEMPLOYMENT. WHILE THE  
WESTERN COUNTRIES ARE SUPERIOR TO COMECON, LONCAR STATED,  
THE SOVIETS NOW HAVE THE CHANCE "TO CHALLENGE OUR INDEPENDENT  
POLICY". "IF YUGOSLAVIA WERE TO TURN TO THE USSR," HE ADDED,  
"WE WOULD FACE A DANGEROUS SITUATION." IT IS IN THIS SITUATION,  
THEREFORE, THAT PRIME MINISTER DJURANOVIC HAS SENT A LETTER  
TO ALL EC PRIME MINISTERS POINTING OUT THESE CONSIDERATIONS  
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AND ASKING FOR RECONSIDERATION OF THE COMMUNITY'S NEGOTIATING  
MANDATE. LONCAR SAID THE YUGOSLAVS DID NOT KNOW  
WHAT THE IMPACT WOULD BE BUT THAT THIS WAS THEIR FINAL  
POLITICAL MOTION. THEY DO NOT KNOW WHAT TO DO FURTHER.

4. LONCAR WENT ON TO EMPHASIZE THAT ON BEHALF OF POLITICAL  
AND STRATEGIC INTERESTS WE HAVE TO FIND A MUTUAL SOLUTION.  
TO CONTINUE NEGOTIATING ON THE BASIS OF EXISTING FORMULAS  
IS NOT THE WAY OUT. HE SAID HE HAD EXPLAINED THIS DURING  
HIS RECENT EUROPEAN VISIT AND STRESSED THAT BOTH SIDES HAVE TO  
FIND A REAL LONG-TERM INTEREST BASED ON AN ADEQUATE FORMULA.  
HE SAID THE EC SHOULD FIRST CONSIDER ITS LONG-TERM INTEREST  
TOWARD YUGOSLAVIA, BOTH ECONOMIC AND POLITICAL, THEN OVERCOME  
THE PRESENT UNACCEPTABLE BARRIERS AND FIND A WAY OUT THROUGH  
EXPANDED AND MORE BALANCED TRADE. YUGOSLAVIA DOES NOT WANT  
A PREFERENTIAL AGREEMENT--DOES NOT WANT A MEDITERRANEAN  
AGREEMENT. IT SEEKS ONE AGREEMENT TO FULFILL THE COMMON NEED

FOR MORE BALANCED EXPANSION IN THE FUTURE, DEEPER CONCENTRATION ON PRODUCTION AND COOPERATION IN UTILIZING THE DIVISION OF LABOR. BY THIS, HE SAID, HE MEANT JOINT VENTURES DESIGNED TO CREATE EXPORTS BACK TO WESTERN EUROPE AND TO THIRD MARKETS. HE NOTED THE TWO MAIN PROBLEMS WERE TRADE AND INDUSTRIAL COOPERATION, WITH FINANCING LESS DIFFICULT AT PRESENT.

5. LONCAR SAID YUGOSLAVIA HOPES THE U.S. CAN INFLUENCE THE EC TO THINK OF ITS OWN LONG-TERM POLITICAL INTERESTS AS WELL AS THOSE OF YUGOSLAVIA IN CONSIDERING THE NEXT STAGE OF NEGOTIATION. HE REITERATED THAT IT IS IMPOSSIBLE TO FIND A SOLUTION ON THE BASIS OF EXISTING FORMULAS. "WE WON'T BEG," HE SAID, "BUT MUST BRING FACTS TO THEIR ATTENTION." YUGOSLAVIA DOES NOT WANT TO CREATE A CRISIS, AND IS READY TO PROLONG THE NEGOTIATIONS FOR ONE OR TWO MONTHS LOOKING TOWARD FINDING A SATISFACTORY SOLUTION. HE SAID YUGOSLAIVA  
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COULD DIVERSIFY ITS TRADE TO INCLUDE A GREATER SHARE WITH THE U.S. BUT CANNOT REPLACE ITS ECONOMIC DEPENDENCE ON THE EC. LONCAR CLOSED BY STRESSING THAT THE PROBLEM IS A SERIOUS POLITICAL ONE FOR YUGOSLAVIA WHICH THE EC SHOULD APPROACH ON THE BASIS OF BOTH ITS OWN AND YUGOSLAVIA' LONG-TERM INTEREST.  
EAGLEBURGER

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## Message Attributes

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